

The Hong Kong advantage

INTERVIEW WITH TC CHAN JP

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**TC CHAN**

obtained his MBA degree from the University of Hawaii in 1979 and his CPA in the same year. In his 25 years with Citigroup, Mr Chan has held senior positions in Treasury, Operations, Product Management, Financial Control, Sales & Trading and Country Business Management. As a native of Hong Kong, Mr Chan is actively involved in community service and professional organisations. He is the Chairman of the Advisory Committee on Human Resources Development in the Financial Sector of the HKSAR, sits on the Board and Executive Committee of the Hong Kong Community Chest and serves as a Council Member of the Hong Kong Polytechnic University. He was appointed as Justice of the Peace in 2002.

How do you see the outlook for the Hong Kong economy in the medium term?

Last year the economy grew at around 8 per cent as it recovered from the effects of the SARS epidemic of 2003. A lot of people expected to see a slowdown this year as a result, but it hasn't happened. In fact our in-house forecasts are for overall growth to be around 5.8 per cent for 2005, which is in line with the forecasts of other banks and trade associations.

In the second quarter, we saw 6.8 per cent growth in Hong Kong. What that indicates is that given the change in government policy both in Hong Kong and China post-SARS, we are beginning to see a more stable base from which Hong Kong could springboard to a higher trend growth in future years.

Hong Kong is a relatively mature economy. Its GDP is roughly US\$25,000 per capita – second to Japan and roughly on a par with Singapore – so it's not an emerging market per se, where growth rates are expected to be much higher. Hong Kong has already reached OECD levels in terms of its GDP and so normally one would expect to see a long-term growth rate in the order of 3-3.5 per cent, like in the United States. But we believe that, given Hong Kong's special role and the very accommodating policies of both the Hong Kong and Chinese governments, we can expect to see a slightly higher growth rate, around 4-4.5 per cent over the next few years.

That view has been supported firstly by the extent to which Hong Kong has provided the capital markets, financial and banking services to China, as evidenced by the large number of mainland IPOs that we have seen here recently. Hong Kong is uniquely placed to benefit from those kinds of cross-border, capital markets activities.

WTO rules require China to open up its financial sector and other segments of its economy by 2007, so the clock is ticking. China has already been focusing on introducing market reforms in a number of sectors such as banking, insurance, logistics, retail, trading – all of which are likely to see a large degree of change that could affect the way they run their business and the way they structure their corporations, from governance to financial management, risk control and so on. So Hong Kong, with its highly developed financial and business infrastructure is extremely well placed to serve China's needs in this respect.

What sets Hong Kong apart from its regional competitors in this regard?

It has a number of unique qualifications: firstly, its physical location. It seldom takes more than three or four hours to fly anywhere in Asia, which is a great advantage for a company like ours that has its regional hub and headquarters here, because although we have an in-country presence in each of the 15 or so markets in which we do business, we base our regional professionals here in Hong Kong and fly them out where they are needed. So, if Taiwan has a big deal that requires equity capital markets professionals, we would send a team from Hong Kong instead of building a team in that country. In that respect Hong Kong is uniquely placed to serve this purpose.

Secondly, if you look at the various regulatory regimes in the region, I would say that Hong Kong and Singapore really stand out. We both follow the British system, with all that that entails, such as the rule of law, property rights, repossession laws, bankruptcy and so on – so we don't need to build from scratch as we do in places like China.

A lot of people compare Hong Kong with Shanghai, pointing out that Shanghai has been growing at twice the rate of Hong Kong over the past few years, and the question that's commonly asked is: when will Shanghai take over Hong Kong's role as the pre-eminent regional financial centre? In my view, it will take two generations for Shanghai to catch up with Hong Kong, because the physical infrastructure is easy to build; over the last ten years they have converted the paddy fields of Pudong into a really impressive financial centre for China. But to be a really successful international financial centre – or even a local financial centre like Tokyo – you need to have the rule of law, you need to have a deep talent pool, you need to have a relatively free system of capital flow, information flow and, of course, a market. Of the market there's no doubt, because China is seen by many people to be the most important market over the next few decades. But in terms of the other elements, Shanghai has a lot of catching up to do before it can challenge Hong Kong as the pre-eminent financial centre.

I think most people see Shanghai as a place for the future, more as a market than as a hub. As a regional hub here in Hong Kong, we hire a lot of expensive people who in turn contribute to the tax base of Hong

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Kong. If the global banks were only set up here to go after local business in Hong Kong we wouldn't need all these highly paid professionals in capital markets, in trading, investment banking, even in commercial banking. So Hong Kong benefits from that role, not only in an economic sense but also culturally.

How does the presence of bankers benefit Hong Kong in cultural terms?

In the sense that it has made Hong Kong one of the most cosmopolitan, international, global cities in this part of the world. It's not quite up there with London or New York, but it's close.

We still have some catching up to do in terms building up our cultural values, we still don't have anything to compare to Broadway or the West End, but it will come. We seldom paid attention to our cultural heritage in the past, but as Hong Kong people are getting richer you will certainly see us catching up with the cultural aspect of society.

Eventually, as well as being the indisputable financial hub for Greater China, I hope that Hong Kong can build its capacity as an educational centre, because it has the potential to provide curricula that are more globally oriented, offering exposure to different multinationals and I think the business community can play an important role in this regard.

In addition, I think we need to capitalise on our potential as a tourism and travel destination. We need to diversify, to build up our convention facilities, invest in golf courses, resort hotels and shows – the whole package. Look what they've achieved in Las Vegas; back in the '50s and '60s it used to be a vice den where people just went for gambling. But over the last 20 years the place has completely transformed itself into a destination for family vacations, great shows, great restaurants, great golfing and now a lot of big companies hold their annual general meetings there. Hong Kong should have that aspiration.

As Citigroup's head of Greater China for Corporate and Investment Banking business, how do you see the process of economic integration between Hong Kong, Taiwan and the Mainland moving forward?

Hong Kong started moving its manufacturing across the border, beginning in the late '70s, the 1980s really saw a fundamental transformation of Hong Kong's economy from SME-type manufacturing to a service-based economy, which gave rise to the property sector and all that. Hong Kong has been very successful in the transformation in the last two decades. Hong Kong businessmen have done well from the property market in particular; most of the foreign investment in China's property and construction sectors has come from Hong Kong.

As for Taiwan, it was opened up to allow its businessmen to invest in the Mainland in 1992. China benefits a lot from Taiwan's know-how; its expertise in IT, in auto parts manufacturing, petrochemicals, all kinds of traditional industries – food processing, garments and shoes.

I would also say that the most successful investors in Mainland China have been from Taiwan, and a lot of people have missed this fact. Hong Kong people have also done well but the most successful ones have been those from Taiwan. Taiwan people are very focused on manufacturing, using China as a manufacturing hub – the global factory, so to speak – and what they manufacture in China is generally exported to America, to Europe, to developed economies, essentially. And in this process they have reaped great economic benefits.

If you look at the number of jobs that these investments from Hong Kong and Taiwan have created, it's staggering; I'm talking about tens of millions of jobs, which is hugely important for China. These investments have also helped in creating wealth and building the know-how for China to constantly migrate upwards in terms of its manufacturing, production and economic process as well as further enhancing the economic development of the region. Mainland companies also take advantage of Hong Kong's capital markets and financial infrastructure for fund raising and in turn create value and jobs for Hong Kong.

Is there not a danger that as political relations improve between China and Taiwan, Hong Kong may lose its privileged position as middleman?

Well, there's always a risk. I mean right now, if you want to go from Taiwan to China you have to go through Hong Kong and they estimate that about 10 per cent of all traffic going through our airport is due to this lack of a direct link between them. So we're going to lose some of that business. But at the same time, every change in the market or in policy will bring with it some advantages and some disadvantages, and in terms of investment flow I see things differently.

Hong Kong still has a big advantage over Taipei or Shanghai as a financial centre, so if you assume that there would be more investment from Taiwan into China and more wealth creation by these Taiwanese businessmen as a result, what are they going to do once they make their money? They're not going to shift their money back to Taiwan, they're not going to keep it in China, they're going to move the money to Hong Kong because it's a financial centre. This money then creates high value-added jobs in the financial services sector, which is exactly the kind of jobs that Hong Kong needs in order to sustain our economic vibrancy and transform ourselves into a true world city like London or New York. **F**